14 Suzuki Motor's Expansion in India

14.1 Introduction

Suzuki Motor Corporation (Suzuki) is an automobile and motorcycle manufacturer of compact cars such as Alto and Wagon R. Domestically, the company trails Toyota in terms of the annual car production, and is about the same size as Nissan and Honda. However, it is India's number one automaker, boasting of more than 30 % share in the passenger vehicle market. Suzuki's business in India began with a joint venture (JV) in 1982 with the Indian government and an investment in the state-owned Maruti Udyog. The company began manufacturing the Maruti 800 (Alto) in 1983. The Maruti 800 became popularly known as the "people's car of India," thereby enabling Suzuki's Indian subsidiary, Maruti Suzuki India (Maruti Suzuki), to enjoy overwhelming strength due to its brand, product line up, and dealer network.

However, the company's climb to the top had not always been easy. India in the 1980s produced goods based on a planned economy and employees had little regard for productivity, thus it took time to instill automobile production management methods among employees. In addition, Suzuki's relationship with the Indian government, its partner in the JV, worsened, and it experienced large-scale employee strikes. Furthermore, with the growth of India's auto market, competitors began to move into the market, posing a threat to Maruti Suzuki's dominance as the number one automaker. Among foreign automakers, Korea's Hyundai Motor Company grew in market share and the domestic automaker Tata Motors was not far behind as the third largest automaker in India. Tata Motors released the Tata Nano in July 2009, which garnered a great deal of publicity with its INR 100,000 (approximately JPY 200,000) price tag. Therefore, price war with domestic manufacturers began to emerge. Additionally, Toyota and Honda, heretofore lacking presence in the Indian market, announced sales of its compact cars made for India, necessitating Suzuki to also gear up against its top tier competitors.

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This chapter analyzes Suzuki's entry into the Indian market via the Maruti Suzuki subsidiary to deepen our understanding of the business environment in India and the changes therein. In addition, we consider the strategies that Maruti Suzuki should employ to maintain its dominance in the Indian auto market.

14.2 Suzuki Motors Corporation and Its Overseas Business

Suzuki Motors Corporation was incorporated in 1920 as Suzuki Loom Manufacturing Co, and later came to be called Suzuki Motors Corporation in 1954, after launching a two-wheel and a light four-wheel business in the early 1950s. In 1990, it changed its name to the current form by changing "Suzuki" in Chinese characters to the same pronunciation in Japanese *katakana* characters. At the end of 2011, it had 134 subsidiaries (70 domestic and 64 overseas) and 37 associated companies. On a consolidated basis, it generated revenues of JPY 2.5 trillion and had a workforce of 50,000 employees. Suzuki created a niche for itself in Japan's compact car market early as a maker of primarily small motorcycles and light vehicles. While its automobiles fall primarily within the light category, Suzuki's growth in the compact and mid-sized car market segments has been startling. Apart from automobiles, Suzuki also manufactures and sells motorcycles and outboard motors. Two-thirds of its revenues come from overseas business (Tables 14.1 and 14.2).

Suzuki has expanded its product line by primarily focusing on the light vehicles segment. In 1981, it strengthened its compact car business through agreements with General Motors (GM) that established operational and capital alliances. In 1983, it began the manufacture and sales of the Cultas; in 1984, it began exporting compact cars, supplying them to GM. In 1989, Suzuki created the CAMI in Canada as a 50–50 JV with GM, kick starting its North American manufacture of compact cars. In 1998 and again in 2000, Suzuki received capital infusions from GM, and by 2000, GM's stake in Suzuki reached 20 %, leading to the announcement of a new strategic alliance with GM. However, in the latter half of that decade, GM lowered its stake to 3 % due to operational restructuring brought about by worsening performance, and eventually sold all remaining Suzuki shares in November 2008, dissolving its capital alliance. In 2009, Suzuki entered into a capital partnership with Volkswagen (VW), which possessed a large share of the Chinese market, through a comprehensive partnership agreement. However, that partnership never materialized into a substantial business, and the comprehensive agreement was cancelled in 2011. Suzuki entered into arbitration to seek the release of its shares owned by VW, to which VW has not agreed. The situation remains unresolved as of 2012.

Suzuki's motto is "Don't do what others do. Even in small markets, we will always strive to be number one in what we do." The company is well known for its constant progressiveness, particularly in the motorcycle segment. For example, the first large scooters with 400 and 650 cc engines, particularly popular in Europe, were sold by Suzuki. The company held its number one position for 34 years in a row, from 1973 to 2006, in the light vehicle segment in Japan, and also acts as an original equipment manufacturer (OEM) to Nissan and Honda.

Table 14.1 Suzuki overseas investments

1909	Formation of Suzuki Loom Works
1920	Incorporation as Suzuki Loom Manufacturing Co.
1963	Creation of US Suzuki Motor Corp. sales subsidiary
1967	Creation of Thai Suzuki Motor Co., Ltd. (Suzuki's first overseas motorcycle factory)
1973	Creation of Suzuki Canada Ltd.
1974	Creation of Suzuki Indonesia Manufacturing joint venture
1975	First overseas auto factory in Pakistan
1980	Creation of Suzuki Australia Pty. Ltd. sales joint venture
1981	Formation of operational alliance with GM and Isuzu
1982	Joint venture agreement with Indian government for Maruti Udyog
	Production of autos at PAK Suzuki Motor Co., Ltd. in Pakistan
	Signing of technological alliance with Spain's Santana
1984	Creation of Suzuki New Zealand Ltd. (sales and production)
	Creation of Suzuki France (sales)
	Creation of Suzuki Motor GmbH Deutschland (sales)
1985	Creation of Suzuki of America Automotive Corp. (sales)
1986	Creation of American Suzuki Motor Corp. holding company
	Agreement on joint production of autos with GM Canada
1988	Agreement with GM to strengthen capital ties
1989	Opening of Suzuki Egypt S.A.E. auto factory
1991	Formal signing of joint auto production agreement in Hungary, and creation of Magyar Suzuki Corporation
1993	Signing of joint passenger vehicle production agreement with China's Chang' an Automobile Group
1995	Withdrawal of capital from Spain's Santana Motors
2000	Joint development and production between GM and Magyar Suzuki Corporation
2001	Suzuki Motor R&D Asia Co., Ltd. begins motorcycle R&D in Thailand
2002	Acquisition of majority shares of India's Maruti, making it a subsidiary
2006	Reduction in capital ties with GM
2008	Cutting of capital ties with GM
2009	Severing of construction on auto factory in Thailand
	Capital alliance with VW
2011	Cancelation of comprehensive agreement with VW
	Arbitration to force VW to relinquish stake in Suzuki

Source: Various resources

Suzuki worked on international expansion since its early stages, making its way into advanced nations, but finding it difficult in the North American market due to low demand for compact cars. It was in these circumstances that Suzuki received a request from the Indian government and entered the country's market. Today, leveraging on its extensive line-up of compact vehicles, Suzuki is aggressively pursuing its entrance into developing countries like Pakistan and former communist bloc countries like Hungary (Table 14.3).

Table 14.2 Financial performance of Suzuki Motors

	Revenues (USD mn)	Cost of sales (USD mn)	GS&A (USD mn)	Net profit (USD mn)	Assets (USD mn)	Employees	Liabilities (USD mn)	R&D (USD mn)
1991	9,390	7,400	1,663	149	5,786	–	4,090	–
1992	10,105	7,990	1,746	153	6,881	–	4,765	–
1993	11,383	9,018	1,984	141	7,764	–	5,039	–
1994	12,684	9,921	2,251	202	10,137	–	6,708	–
1995	14,441	11,162	2,602	278	8,919	–	5,939	–
1996	13,370	10,271	2,568	299	8,155	–	5,341	–
1997	12,148	9,246	2,497	246	7,779	–	4,970	–
1998	11,464	8,818	2,271	192	9,557	–	5,858	–
1999	13,712	9,831	2,760	242	11,380	30,612	6,527	271
2000	14,500	10,334	3,020	183	10,373	30,153	5,634	340
2001	13,358	9,261	3,024	179	10,169	29,695	5,491	360
2002	16,554	11,654	3,597	255	12,964	39,127	7,497	496
2003	19,507	13,631	4,247	389	15,195	38,493	8,527	672
2004	22,026	15,369	4,742	563	15,830	39,454	8,865	809
2005	24,293	16,984	5,183	583	15,689	40,798	10,458	795
2006	27,059	19,191	5,449	642	19,660	45,510	13,380	788
2007	30,766	21,859	6,174	705	24,184	50,241	16,368	955
2008	30,027	21,940	5,907	274	21,851	50,613	15,376	1,149
2009	26,614	18,755	5,475	312	25,475	51,503	15,291	1,173
2010	26,538	20,225	5,459	311	25,595	52,731	13,882	–
2011	31,368	23,890	6,191	543	26,751	54,484	13,438	–

Source: Compustat Global Data

Table 14.3 Number of passenger vehicle sales by region (units: in thousands)

Region	2004	2005	2006	2007	2008	2009	2010
NA	85	99	113	112	85	41	33
Cent. & SA	34	44	48	67	76	58	71
East Asia	264	260	234	280	278	332	391
Oceania	10	19	21	28	27	27	31
West Asia	562	628	767	841	799	939	1,233
Mid-East	12	12	19	24	28	19	16
Africa	10	14	22	35	44	29	35
Europe	243	289	306	344	301	281	243
Total	1,219	1,365	1,531	1,732	1,641	1,727	2,053
Japan	673	707	691	673	665	622	588

Source: 2011 Suzuki Corporate Overview

In the 3-year mid-term plan for the period 2007–2010, Suzuki set a 2010 goal of selling 2.95 million vehicles worldwide and producing 3.2 million vehicles. The company also made plans to expand its supply system by establishing new production facilities in Thailand and introduce new models such as the A-Star into Indian and European markets. However, due to the economic recession caused by the financial crisis and the subsequent sudden drop in demand, it was forced to revise a part of its new business plan, such as indefinitely postpone the establishment of a new subsidiary in Russia and revise its production plans for its Thailand factory. Production volume in 2008 dropped to below 2.5 million vehicles worldwide, but due to the demand in the domestic sales for light vehicles, it recovered to approximately 2.8 million by fiscal year 2011 (1.02 million domestic and 1.78 million overseas).

14.3 Suzuki's Business in India

Amid the global economic downturn precipitated by the Lehman Brothers bankruptcy, Suzuki's subsidiary in India, Maruti Suzuki, was experiencing spectacular success. Thirty percent of Suzuki's overall profit on a consolidated basis came from India. As the "people's car of India," Suzuki's Maruti 800 established a strong brand recognition. In 2007, Osamu Suzuki, the president of the company, received the "Padma Bhushan" award from the Indian government for the company's contribution to the Indian economy.

India's auto market began with knockdown production, or a simple assembly of imported parts, by GM and Ford during the 1930s. Hindustan Motors was formed in 1942, followed by other auto makers such as Premier Automobiles, TELCO (currently Tata Motors), Ashok Leyland, and Mahindra & Mahindra, all established using domestic capital.

The production technology of these early domestic automakers was low, therefore, the Indian government, in the intention to develop automakers that could produce compact cars with good fuel consumption at low cost, requested Japanese automakers to enter the market. This is how Suzuki made its entrance in the Indian market. In 1982, the Indian government and Suzuki entered into a JV agreement and began the production of automobiles through India's state-owned manufacturer, Maruti Udyog. The automobile industry at the time thought of this as rash, and some inside officials opposed the agreement. However, Osamu Suzuki, the president at the time, said, "No one else is going to India, so we have an opportunity. We were the lowest-ranked among domestic manufacturers, and wanted to be at the first place somewhere." It was with this sense of passion that he made the decision to begin operations in India. At first, production began with Suzuki only retaining a 26 % minority stake in Maruti Udyog. Although the Indian government had requested for Suzuki to own what was then the foreign ownership maximum of 40 %, Suzuki, keeping investment risk in mind, determined that 26 % was the most it could invest without compromising veto rights for major management issues. Suzuki also ensured that its approval of important policy matters, such as CEO changes, was included as a condition in the JV agreement, thereby allowing Suzuki to instill Japanese management styles into the JV, despite its hold as a minority participant. The 1980s was a time of both merits and demerits for JVs with state-owned enterprises. Because Maruti was state-owned, employees were unconcerned about productivity and it took time to implement a production management system. For example, employees were not very particular about work hour schedules, making it difficult to implement production lines with routings managed in seconds. By training these employees in Japanese factories, the company was able to elicit a desire to master automobile production management systems. Executives, who were used to their private offices, were baffled by Suzuki's system of having all employees together in one large room. However, today this same system is well received by Indian employees as it enables better communication.

Supply could not meet automotive demand in India during the 1980s, and because Suzuki was the only foreign automaker in India, it was able to take advantage of this and hire the very best Indian engineers. It was also able to smoothly expand its sales network through its JV. Because customers had to buy whatever was produced, auto dealers did not have to put in much effort to sell their vehicles. However, the country needed service stations for auto repairs caused by the poor condition of Indian roads. At the time, Maruti's dealers were local celebrities who sold motorcycles and ran other businesses, and Maruti was able to earn their trust due to it being a state-owned company.

India was beset by a severe fiscal crisis in 1990 that brought about massive deregulation to transition itself into a market economy because it determined that the economic system up until that point, with its tangle of regulations, was the source of the crisis. As part of that transition, regulations governing foreign capital were relaxed in 1991, and at the Indian government's request in 1992, Suzuki increased its stake in the JV to 50 %. However, differences of opinion with the government regarding planned factory expansion locations and funding sources surfaced in the late 1990s. Additionally, Suzuki felt that the executive nominated by the Indian government to head the JV in 1997 was unsuitable for the role, causing the company to take an extreme measure and once again oppose the Indian government. Osamu Suzuki casually commented in an interview with a *Nihon Keizai Shinbun* reporter: "We'll have an abacus in our left hand and come out punching with our right. We don't need to compromise" (September 25, 1997, *Nihon Keizai Shinbun*, p. 24). Insisting that the Indian government was violating the contractual agreement to "select appropriate personnel as company president," Suzuki went so far as to take action against the government in both the Delhi High Court and London's International Court of Arbitration. The Indian government did not think that Suzuki, a mere private company, would react so strongly. Finally, in 1998, the two parties settled. The dispute caused interruption to new car models, causing delayed management decisions on new car sales by Maruti Udyog.

Labor unions in India are very powerful and many foreign manufacturers have been troubled by labor disputes. Suzuki is no exception. Increased market competition made it difficult to maintain traditional wage structures that provided incentives depending on production volumes. The labor union reacted negatively when the company proposed inhibitory changes to wages in 2000, triggering a large-scale strike lasting 88 days during October 2000 through January 2001. During that time, the labor union involved politicians and India's Department of Commerce in an effort to shake up Suzuki by any political means possible. However, Suzuki stayed firm to its stance that it would not hire workers who could not follow directions.

Suzuki took a controlling stake of Maruti Udyog in 2002, and in 2003, some of the government's shares were sold on the stock exchange. The government sold all of its remaining shares in 2007, at which time Suzuki was able to cut all capital ties to the government. It is thought that the Indian government came to this decision by judging the outcome of its attempts to interject itself into Maruti's management in the late 1990s, and acknowledged that management of the company was better left to Suzuki (Tables 14.4 and 14.5).

From the outset, Suzuki implemented a number of labor practices, such as a "bottom–up approach," at Maruti Suzuki. For example, executives at Suzuki sit among employees at the cafeteria and eat the same food so as to facilitate communication. This was difficult to practice in India with its strict caste system, but Maruti Suzuki was insistent. At the time, Prime Minister Indira Gandhi praised Suzuki as having "Transplanted Japan's work culture into India." Today, this "bottom–up approach" is the norm among Indian executives, and there is now an environment in place allowing for manufacturing the Suzuki way. To fully implement the Suzuki way of manufacturing, the company sent Indian employees to Japan to train them on-site in locations such as Hamamatsu. However, the increasing numbers of veteran Indian workers now make it possible to conduct training locally, resulting in fewer trainees being sent to Japan.

Maruti Suzuki's production volume steadily increased until 2010, but declined by 100,000 units in 2011 to approximately 1.13 million units due to a large strike

Table 14.4 Financial performance of Maruti Suzuki

	Revenues (USD mn)	Cost of sales (USD mn)	GS&A (USD mn)	Net profit (USD mn)	Assets (USD mn)	Employees	Liabilities (USD mn)	R&D (USD mn)
1991	784	–	–	12	362	3,993	271	–
1992	744	–	–	13	400	4,042	287	–
1993	890	–	–	27	672	4,141	537	–
1994	1,323	–	–	79	1,141	4,840	933	–
1995	1,423	–	–	128	1,005	4,968	696	3
1996	–	–	–	–	–	–	–	–
1997	–	–	–	–	–	–	–	–
1998	1,851	–	–	124	999	5,719	381	3
1999	2,150	–	–	76	1,118	5,848	450	7
2000	1,956	–	–	–59	1,077	5,770	510	10
2001	1,905	–	–	22	990	4,627	435	10
2002	1,476	–	–	30	1,151	–	499	–
2003	2,045	–	–	122	1,348	3,334	505	6
2004	2,446	–	–	196	1,523	3,453	502	8
2005	2,733	–	–	276	1,916	–	666	9
2006	3,273	2,724	111	352	2,423	–	802	12
2007	4,508	3,697	156	446	3,176	7,090	1,015	16
2008	4,524	3,903	182	269	2,765	7,159	884	15
2009	6,247	4,912	–	554	–	–	–	20
2010	7,586	5,314	210	551	–	–	–	22
2011	7,688	6,925	207	500	–	–	–	–

Sources: Compustat Global Data/Maruti Suzuki Annual Report 2011 (INR 1 = USD 0.021)

Table 14.5 Development of Maruti Suzuki

1971	Sanjay Gandhi (the son of former Prime Minister Indira Gandhi) applauds company based on a compact "people's car" concept
1972	
1981	Maruti created as state-owned company
1982	Maruti joint venture and license agreement with Suzuki
1983	Production and sales of Maruti 800 (Alto)
1984	Sales of Omni (Every)
1985	Sales of Gypsy (Jimny)
1990	Sales of Esteem (Cultas)
1991	
1992	Suzuki increases ownership from 40 to 50 %
1993	Sales of Zen (Servo)
1994	Cumulative production of 1 mn vehicles, opening of Number 2 Factory
1997	Cumulative production of 2 mn vehicles
1998	
1999	Opening of Number 3 Factory
	Sales of Baleno (Crescent) and Wagon R
2000	Sales of Alto, cumulative production of 3 mn vehicles
2001	Sales of Versa (Every Landy)
2002	Maruti Udyog becomes Suzuki subsidiary
2003	Maruti Suzuki gets listed on the stock market, cumulative production of 4 mn vehicles
2004	Decision to create engine production company
2005	Cumulative production of 5 mn vehicles, sales of Swift
2006	Manesar Factory begins production
	Sales of Zen and Estiro (Wagon R)
	Cumulative production of 6 mn vehicles
2007	Corporate name becomes Maruti Suzuki India Limited
	Sales of SX4 and Grand Vitara
2008	Sales of Swift Desire
	Cumulative production of 7 mn vehicles
	Sales of A-Star
2009	Sales of Ritz (Splash)
2010	Annual sales of 1 mn vehicles
2011	Cumulative production of 10 mn vehicles

Source: Various resources

the previous year. Of that number, one million units were sold domestically, and 130,000 were exported to other markets. The Indian market for both passenger and commercial vehicles, on the other hand, increased from approximately three million units in 2010 to 3.3 million in 2011, causing Suzuki's market share to drop from almost 40 % in 2010 to about 30 % in 2011. These numbers, however, include all vehicles, and Maruti Suzuki's share of passenger vehicles was higher, at around 38 % in 2011 (Table 14.6).

Table 14.6 Number of production and sales by Maruti Suzuki

	1999	2000	2001	2002	2003	2004	2005
Production volume	407,589	350,374	358,108	359,960	472,908	540,415	572,127
Domestic sales	384,892	335,461	340,182	330,175	420,947	487,402	527,038
Exports	21,450	15,300	12,233	32,240	51,175	48,899	34,781
	2006	2007	2008	2009	2010	2011	
Production volume	667,048	777,017	774,623	1,025,466	1,270,959	1,133,695	
Domestic sales	635,629	711,818	722,144	870,790	1,132,654	1,006,316	
Exports	39,295	53,024	70,023	147,575	138,305	127,379	

Source: Maruti Suzuki India Limited (2011)

In addition to Maruti Suzuki maintaining its top market share in India, the company planned to develop India as a compact vehicle export hub and development center for compact cars bound for global markets. The A-Star model, which hit the global markets in 2009, had a production volume set at 140,000 vehicles, of which 100,000 were exported to Europe that same year. Exports to Europe have been stagnant due to the slumping European economy, but Suzuki is preparing toward a transition development of compact vehicles to India. As part of that process, in 2013, it is planning on opening a development center with a test course in Rohtak, a city in the state of Haryana. Modifications such as the increased engine room to the 660 cc Japanese light vehicle Alto to place a one liter engine, and body modifications to the ECCO passenger car based on Japan's commercial vehicle Every, have been carried out locally. Testing these completed vehicles was previously conducted in Japan, but it can now be conducted in India with the opening of a testing center, thereby considerably shortening the development phase for products going to both Indian and other foreign markets.

Maruti Suzuki is also proactive in its CRS activities, and has opened Maruti Driving Schools (MDS). As of March 2009, more than 50 of these schools were in place, compared to 34 in the previous year. This number grew to 163 by November 2011. Aiming to reduce traffic accidents, Suzuki considers education on safe driving as part of its responsibility as the nation's top automaker.

14.4 Supply Chain Creation and Local Development Infrastructure

Cars are made up of several parts, each of which is manufactured by as many part makers. The auto industry has a hierarchical structure, with the automakers at the top as assemblers, working directly with the relatively large Tier 1 suppliers, who in turn are supplied by many Tier 2 and Tier 3 suppliers. Creating a supply chain with these parts suppliers is critical to producing cars in India.

In the first half of the 1980s, when Suzuki was just beginning passenger car production in partnership with Maruti Suzuki, there were no companies in India that could manufacture auto parts that met Suzuki's quality standards. Thus, Maruti Suzuki began producing passenger cars by furnishing its factories with welding and painting equipment and assembling the parts and materials that were imported from Japan. At the behest of the Indian government to procure parts domestically to develop an auto parts industry in India, Maruti Suzuki began sourcing tyres and batteries domestically. Since buses and trucks were being produced domestically, India already possessed the technology to produce these items. Although it was not easy to apply these technologies to compact cars, the company was able to eventually localize the procurement with the cooperation of Indian manufacturers.

At the time, Tata and Mahindra & Mahindra were manufacturing trucks and buses. With all necessary parts manufactured internally, these companies never considered the development of a parts supplier network. With Suzuki's instruction, a Phased Manufacturing Program to develop a local Indian parts suppliers' network began. For example, a technology called "zone toughening" is used on windshields that can alter the size of a crack depending on its location on the windshield. It was necessary to bring this technology from Japan to make windshields in India. Parts suppliers themselves possessed the technology, so Suzuki decided to form a three-way JV between Suzuki, Maruti Suzuki, and parts suppliers. The same applied to plastic bumpers, since India at the time only produced metal bumpers. In this manner, Suzuki steadily pressed forward with creating a local supply chain.

Circumstances changed dramatically with the economic liberalization policies of the 1990s as major foreign parts manufacturers began to expand into India. The Phased Manufacturing Program ended in 1992 and Maruti Suzuki began procuring parts from Indian companies, which by then could produce high quality parts. Today, Maruti Suzuki procures more than 90 % of its parts domestically, importing only a very small percentage from Japan. However, in many cases, the company procures parts from the Indian subsidiaries of Tier 1 Japanese parts suppliers, which in turn import critical parts from Japan for further assembly in India.

For example, Denso, a supplier of electronics controlling units (ECUs), fuel pumps, and injectors, primarily imports critical parts from Japan and assembles them in India. It procures some parts, such as plastic and die cast locally, but India still lacks adequate Tier 2 suppliers. Furthermore, Japanese suppliers at this level are mostly small- and medium-sized businesses, with only few expanding into India. "Increasing the amount of local procurement is essential to reducing costs, and automakers are very cooperative. We cannot lower the quality, but we do need to change our thinking, such as decreasing the functionality of Indian specifications" (an oral interview with employee at Denso's Indian subsidiary).

Maruti Suzuki began producing diesel cars in 2006. Demand in India for diesel-run cars is high, and depending on the model, it can be higher than demand for gas-driven cars. Suzuki did not possess diesel engine technology, so it received technical assistance from Fiat, on account of its alliance with GM, which had a capital alliance with Suzuki at the time. Because the ECUs for diesel engines were manufactured by the Italian firm Magneti Marelli, in 2008 Maruti Suzuki formed a JV with Magneti Marelli and began production of diesel engines in India.

As Maruti Suzuki moved ahead with the localization of its production processes, it also proceeded in terms of creating infrastructure to enable the development of compact cars in India. Up until that time, new cars introduced into the Indian market were models already in mass production in Japan that had been modified according to Indian specifications. However, with the introduction of the Swift model in 2005, Suzuki completely changed course and began the simultaneous production of cars of the same specifications and quality of those produced in Japan, Hungary, India, and China.

Suzuki took a step forward with the release of the A-Star. Manufactured in India and made for the global markets, the model was sold not only in India but was also exported to Europe. Maruti Suzuki and Suzuki periodically had exchanges between the two companies' engineers, helping the growth of development infrastructure in India. There are three stages in local design. The first stage is the ability to design the front and rear of the body, specifically the shapes of the lights and front grill. Maruti Suzuki is already at this level. The second stage is the ability to design the entire body, and the third is the development of the entire vehicle, including the platform. According to a Maruti Suzuki local staff "The company would like to be positioned at level two in the next few years."

14.5 India's Automotive Industry: Huge Opportunities and Increasing Competition

Total sales volume of vehicles in India was 3.3 million in 2011, and although it compares unfavorably to China's 18 million, it is still the sixth largest market in the world. With an estimated annual growth rate of 10 %, the Indian market will certainly surpass Japan, Brazil, and Germany in the near future, becoming the third largest in the world, behind only China and the US. Particularly amid the shrinking auto markets of the US and Japan due to the Lehman Brothers-induced economic recession, growth in the auto markets in emerging nations is astonishing (Table 14.7).

India's potential as an auto market can also be gleaned from the relatively low market penetration of vehicles. As of 2010, population per vehicle was 57, more than double that of China's score of 27. Accompanied by nationwide economic growth, India's overall wage levels are also increasing. The middle class population percentage with the means to purchase a car (i.e., those with an annual income greater than INR 200,000) has risen to 10 % of the total population and is estimated to grow in the future.

Compact cars have the highest share of India's auto market. According to 2009 data, more than one million of the 1.4 million passenger vehicles manufactured that year fell into the compact car category (Table 14.8).

Maruti Suzuki shows overwhelming strength within the compact car category, with approximately half of the market share, followed by Korea's Hyundai Motor Company and India's Tata Motors. In terms of 2011 passenger car market share, Hyundai Motor Company is somewhat ahead of Tata Motors, although Tata has an overwhelming lead in terms of total production volume when commercial vehicles

Table 14.7 Market size of automotives by country (units: 10,000s of vehicles)

Country	2005	2006	2007	2008	2009	2010	2011
China	577	722	879	934	1,364	1,806	1,851
US	1,744	1,705	1,646	1,349	1,060	1,180	1,304
Japan	585	574	535	508	461	496	421
Brazil	171	193	247	283	315	352	363
Germany	361	377	348	343	405	320	351
India	144	175	199	198	227	304	329
Russia	181	225	289	322	160	211	291
France	255	250	258	257	272	271	269
UK	283	273	280	248	222	229	225
Italy	250	261	278	242	236	215	195
Iran	101	110	115	130	142	160	164
Canada	163	167	169	167	148	158	162
Korea	117	120	127	122	145	156	158
Australia	99	96	105	101	94	104	101

Source: Fourin: 2011 World Car Almanac

are included. Tata Motors began selling the Nano, a low-priced vehicle, in 2009. It began factory operations for Nano production in the state of Gujarat in June 2010, and currently has the capacity to produce 250,000 vehicles annually. It plans to increase this number to 350,000 vehicles in the future, giving Nano sales the potential to dramatically change the composition of the compact car market. Next in terms of market share is Mahindra & Mahindra, which primarily manufactures SUVs. Toyota, GM, Ford, and Honda hover around the list, at sales volumes between 50,000 and 100,000 vehicles each. These standings are based on domestic Indian sales, although in terms of production volume including exports, Hyundai Motor Company is far ahead of Tata Motors. Renault Nissan has also built an export production facility and plans to manufacture 240,000 vehicles annually in 2012 (Table 14.9).

Of the many parts procured from parts suppliers, auto production facilities special order most parts. Parts that require a high degree of quality or precision are sometimes imported from the manufacturer's country of origin, but these manufacturers must increase the percentage of locally procured parts to reduce production costs. Thus, automakers often procure from domestic suppliers while helping them develop. As a result, automakers have clusters of parts suppliers near their facilities. India has three large automotive clusters formed by suppliers: the Delhi areas where Maruti Suzuki and Honda Siel are located; the Mumbai areas, including Pune, where Tata Motors is located; and southern India where Hyundai Motor Company (in Chennai), Renault Nissan (Chennai), and Toyota Kirloskar (Bangalore) are located (Fig. 14.1).

Below are overviews of Maruti Suzuki's main competitors in India.

Table 14.8 Sales volume by car segment in India

Category		Segment	2004	2005	2006	2007	2008	2009
Passenger vehicles	Passenger vehicles	Mini	132,706	91,865	85,401	71,102	54,875	54,204
		Compact	469,844	552,794	693,916	842,474	864,288	1,058,871
		Mid-size	172,153	174,555	201,615	214,444	238,690	260,422
		Executive	22,272	27,714	36,687	42,536	35,131	41,355
		Premium	5,674	6,236	5,818	6,906	7,771	9,890
		Luxury	126	159	288	662	1,079	1,123
		Total	802,775	853,323	1,023,725	1,178,124	1,201,834	1,425,865
	Utility		171,520	187,649	211,001	237,764	237,055	255,807
	MPV		64,506	65,891	76,628	95,766	106,453	133,533
	Total		1,038,801	1,106,863	1,311,354	1,511,654	1,545,342	1,815,205
Commercial vehicles	Compact commercial	Buses	19,670	22,038	23,165	27,224	27,071	31,623
		Trucks (freight)	95,672	112,943	154,806	184,387	180,589	219,566
		Total	115,342	134,981	177,971	211,611	207,660	251,189
	Mid-sized & large commercial	Buses	24,546	27,210	28,926	37,284	35,982	37,888
		Trucks (freight)	154,435	160,634	209,795	208,795	194,061	159,605
		Trailers	11,173	10,767	22,827	24,219		
		Total	190,154	198,611	261,548	270,298	230,043	197,493
	Total		305,496	333,592	439,519	481,909	437,703	448,682
Total sales volume			1,344,297	1,440,455	1,750,873	1,993,563	1,983,045	2,263,887

Source: Fourin: 2011 World Car Almanac
Mini (approx. INR 220,000): length of 3,400 mm; Compact (approx. INR 350,000): length of 3,404–4,000 mm; Mid-size (INR 500,000–850,000 m): length of 4,001–4,500 mm; Executive (INR 1.1 mn): length of 4,501–4,700 mm; Premium (INR 1.2–3 mn): length of 4,701–5,000 mm; Luxury (INR 3.2 mn): length of 4,701–5,000 mm

Table 14.9 Sales volume by manufacturer in India

Brand	Non-commercial vehicles		Passenger cars		Utility vehicles	
	2010	2011	2010	2011	2010	2011
Maruti Suzuki	1,065,732	997,281	908,742	844,001	156,990	153,280
Tata Motors	723,853	802,866	249,893	246,874	91,830	103,310
Hyundai	356,712	373,709	356,501	372,259	211	1,450
Mahindra & Mahindra	284,477	361,167	8,163	16,204	164,066	210,093
Toyota	74,762	136,148	11,307	73,094	63,455	63,054
GM	110,361	111,056	90,352	88,657	20,009	22,399
Ford	83,887	96,271	80,685	93,268	3,202	3,003
Ashok Leyland	80,474	84,720	–	–	–	–
VW	32,626	78,410	32,623	78,404	3	6
Honda	62,872	47,548	62,204	47,222	668	326
Eicher Motors	35,464	45,229	–	–	–	–
Skoda	20,135	30,741	19,729	28,569	406	2,172
Force Motors	24,088	28,336	–	–	4,363	6,176
Nissan	7,161	22,893	6,719	22,585	442	308
Fiat	21,948	16,733	21,948	16,733	–	–
SML Isuzu	11,287	12,783	–	–	–	–
Piaggio Vehicles	9,553	11,188	–	–	–	–
Asia Motor Works	6,008	9,478	–	–	–	–
BMW	4,741	8,042	4,394	5,162	347	2,880
Hindustan Motors	11,136	5,890	8,279	3,545	2,451	2,141
M-Benz compact	4,210	5,634	3,945	5,003	265	631
Audi	2,449	4,718	1,762	3,656	687	1,062
Renault	–	1,401	–	1,137	–	264
Volvo	1,670	1,360	–	–	–	–
ICML	748	428	–	–	748	428
M-Benz mid-size commercial	147	178	–	–	–	–
JCBL	28	13	–	–	–	–
Total	3,036,529	3,294,221	1,867,246	1,946,373	510,143	572,983

Source: Fourin: 2011 World Car Almanac

14.5.1 Hyundai Motor India (HMI) Limited

HMI was created in 1996 in Chennai and is a wholly owned subsidiary of Hyundai Motor Company. In second place, it holds approximately 20 % of the passenger car market, and has a firm position behind Suzuki. It has been noted that, since its establishment in 1996, HMI was able to heighten its presence in the market with successful product strategies. Until 2005, most cars sold in the Indian auto market were variants of older models from advanced nations, but HMI introduced what was then

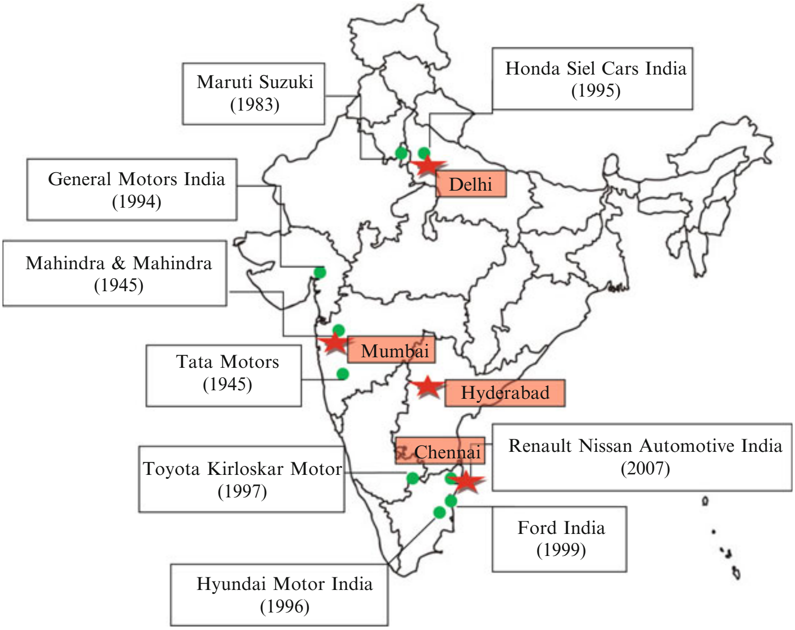

Fig. 14.1 Locations of major car manufacturer in India

its latest model, the Santro, into the market, rapidly acquiring a large market share. HMI is also a source of exports for Hyundai Motor Company, the largest such exporter in India. It has built a supply chain of Korean parts suppliers to accompany its growth in production volume, and currently procures more than 90 % of its parts from local sources.

14.5.2 Tata Motors

Tata Motors, a member of the Tata Group, has maintained a market share of 60 % in trucks and buses. Internationally, the company has grown aggressively through M&As, acquiring Korea's Daewoo in 2004 and forming Daewoo Commercial Vehicle Company Ltd., and investing in Spain's Hispano Carrocera in 2006, before fully acquiring it in 2009. It purchased Jaguar/Land Rover (JLR) in June 2008, gaining footholds into the luxury car and SUV markets. Within the domestic vehicle market, its compact car, Indica, is a popular model, and it introduced the mini-car Nano in 2009. The company also plans on introducing a new car category that fits between the Indigo and Nano models. However, no increase can be seen in the market share of the Indigo in the compact category in which Maruti Suzuki and HMI are strong.

14.5.3 Mahindra & Mahindra

In addition to automobiles, Mahindra & Mahindra is spread across a wide array of industries, including agricultural equipment, infrastructure development, and IT services. However, within the automotive industry, it is positioned somewhere in between the passenger and commercial vehicle markets, having a 50 % market share in the utility vehicle segment (its core model is the Scorpio). As for foreign partners, it formed a JV with Renault and introduced a low-priced mid-sized model called the Logan, although sales of this model have not been strong. The company is unique in terms of its new technological advancements and product development. For example, the company develops diesel hybrid vehicles. However, it is said that Indian market is not yet ready for hybrid vehicles.

14.5.4 Toyota Kirlroskar Motors

In 1997, Toyota entered into a JV with India's Kirloskar Motors to form Toyota Kirlroskar Motors. For a long time, the JV operated in the Indian market with its SUV, the Innova, although the Indian market did not receive high priority from the Toyota Group at that time. However, in 2010, Toyota decided to capitalize the compact car market in India, an automotive hot spot, and introduced the Etios model, a car with a price tag in the INR 500,000 range. Sales of the Etios have been strong, with Toyota selling 70,000 in 2011.

14.5.5 Honda Siel

In 1995, Honda's automotive division created a JV with India's Usha International, calling it Honda Siel Cars India Limited. This company manufactures and sells the City and Accord, but even after more than 10 years since its formation, its annual production level remains at approximately 50,000–60,000 vehicles. With prices ranging from INR 670,000 for the City on the low end to INR 1.7 million for the Accord on the high end, Honda targeted the growing affluent consumers with these models. The company introduced an even lower-end model called the Jazz in 2008 before introducing the compact Brio in 2011, which was priced lower than INR 500,000. The release of this vehicle coincided with the Bangkok floods, disrupting production in the latter half of 2011, after which Honda's activities have been noteworthy. Honda's local procurement rate at 70 % is lower than Suzuki's and Hyundai's, which are at more than 90 %, increasing this number to compete in the lower-priced models is important. In September 2012, Honda dissolved its JV announcing that it would move forward as a wholly owned subsidiary.

Suzuki's broad lineup of models is ready to compete with these companies. The company is currently focused on compact cars (i.e., cars with lengths of less than

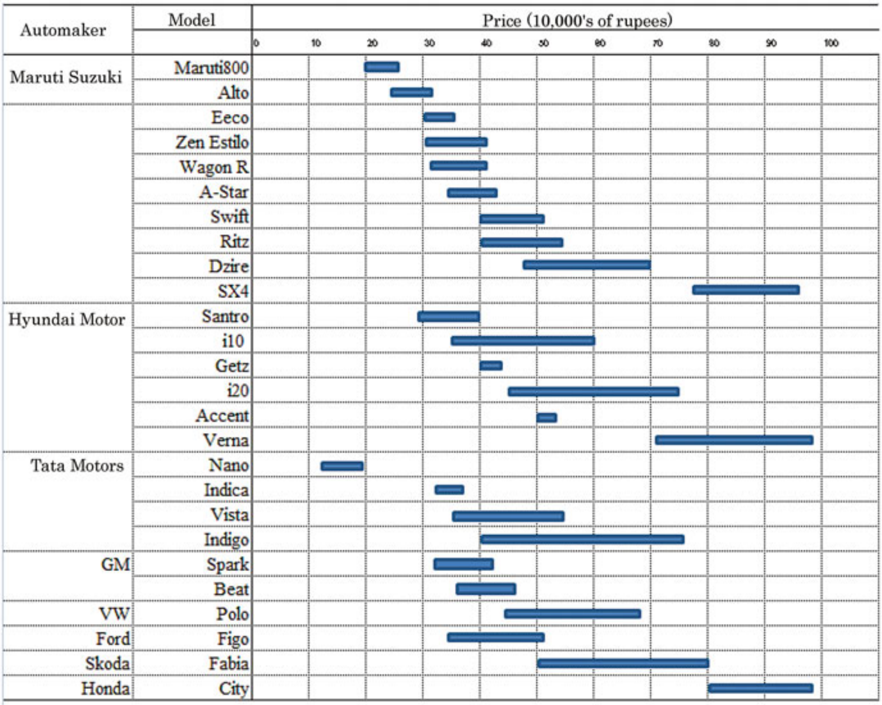

Fig. 14.2 Price range of car by model in India (As of 2010) (*Source*: various resources)

four meters and engines of less than 1.2 l) and because this category is subject to preferential tax treatment (excise tax lowered to 12 % versus the 24 %), sales volume is expected to grow. This class of cars can be divided into three categories: (1) entry-level (800 cc class, such as the Maruti 800 and Alto); (2) A2 (1,000 cc class, such as the Wagon R and Hyundai's i10); and (3) A2+ (1,200 cc class, such as the Swift and Hyundai's i20). While the A2 is the most popular, the growth rate of the A2+ is also high. However, the A2+ category is very competitive, with Tata's Indica, VW's Polo, and Ford's Figo vying for the same customers. Further, Nissan's Micra (March), Toyota's Etios, and Honda's Brio also fall under this category, further intensifying competition.

Suzuki is also implementing its strategy to increase its lineup of cars for upper-class consumers. In 2009, it began selling a new model sedan, the SX4, and an SUV, the Grand Vitara (Escudo), and in February 2011 it introduced the Kizashi into the Indian market, a model previously sold in North America. The question that must now be answered by Suzuki's management is how to allocate its limited management resources (Fig. 14.2).

14.6 Significance of This Case Study and Suggested Questions

This chapter discussed Maruti Suzuki, a case study of a Japanese company's entry into the Indian market. Among India's manufacturing industries, the automotive industry is the most watched, and many local subsidiaries of Japanese companies are in the automotive sector. Chapter 6 analyzed the Neemrana Industrial Park, which was built to attract auto parts suppliers into the Indian market. A detailed analysis has been conducted not only on Maruti Suzuki's business, but also on the trends in the Indian auto market, competitors, and local business environments. Accordingly, the authors would like readers to examine management strategies, alliance strategies, marketing, and R&D as explained in this volume, and use these as materials to think about how the overall business strategies should be constructed.

Using this case study, we recommend exploring the following points to further deepen your understanding of global strategies:

- Why was Suzuki successful in India? The company decided to enter the India market in the 1980s, when it was still risky to do so. What were the primary factors that led to Maruti Suzuki's success? Why were these actions important?
- Summarize the competitive environment within India's auto market using Porter's five Force model (explained in Chap. 2). Explain the strategy Maruti Suzuki should pursue based on that model.
- Explain Maruti Suzuki's marketing strategy to date. How does the company segment and target customers? Considering future market competition, what market strategy will be most appropriate for the company in the future?

Maruti Suzuki is planning on building an R&D center in India (in Rohtak, near Delhi). Is this a good decision? What in your opinion should this R&D center focus on? (refer to Chap. 11 for categorizations of overseas R&D activities)

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